



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

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January 28, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

PROPOSITION 58: THE CALIFORNIA BALANCED BUDGET ACT

On January 15, 2004, your Board asked my office to review and report back on Proposition 58, the California Balanced Budget Act, which was approved by the Legislature and the Governor in December 2003 as part of a compromise that also includes Proposition 57, the Economic Recovery Bond Act (which is reported on in a separate memo). As a constitutional amendment, Proposition 58 will be submitted to the voters in the March primary, however, it will not take effect unless Proposition 57 is also approved.

The Balanced Budget Act contains a number of reforms to the budget process intended to address some of the perceived problems in State budgeting during the recent years of fiscal crisis. These changes include:

- A requirement that the Legislature and the Governor adopt a balanced budget in addition to the existing requirement that the Governor propose a balanced budget;
- Authority for the Governor to declare a Fiscal Emergency and propose a plan to correct a mid-year budget deficit which the Legislature could either adopt or approve an alternative within 45 days or be prohibited from acting on other bills or adjourning in joint recess;

- Creation of a budget reserve – the Budget Stabilization Account (BSA) – and a gradual process of mandatory transfers to fund it starting in FY 2006-2007 so that the Fund would eventually grow to 5 percent of the General Fund or \$8 billion, whichever is greater;
- Allocation of 50 percent of the amount annually transferred to the BSA for repayment of the deficit-recovery bond authorized by Proposition 57 with the balance available for transfer to the General Fund through a majority vote of the Legislature; and
- A prohibition against most forms of borrowing to cover future budget deficits (short term borrowing for cash-flow and inter-fund borrowing would still be allowed).

While these measures stop short of the hard spending cap demanded by some, they have the potential for improving the State's budget process. In particular, a budget reserve of this magnitude would tend to smooth out spending over an economic cycle and avoid the "boom and bust" budgeting of recent years, thereby making funding for counties more predictable. On the other hand, by prohibiting most forms of borrowing, the measure would deprive policy-makers of a potential tool to help balance the budget in a difficult year, thereby making spending cuts and/or a tax increase more likely.

In light of the fact that Proposition 58 is linked to passage of Proposition 57, whose failure would likely result in an even greater reduction in State funding for counties than the Governor's Budget, **I recommend that the Board go on record in support of Proposition 58.**

DEJ:GK
MAL:JR:lm/hg

c: Executive Officer, Board of Supervisors
County Counsel